FDIC State Profile

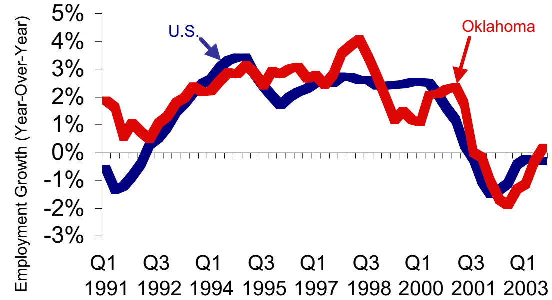
WINTER 2003

Oklahoma

The Oklahoma economy saw its first employment gain in more than two years.

- Hard hit by the U.S. recession and subsequent jobless recovery, Oklahoma turned in its first year-over-year gain in total nonfarm employment in nine quarters during the third quarter of 2003 (see Chart 1).
- Defense spending is expected to drive growth in Oklahoma; Tinker Air Force Base and Fort Sills are the two largest employers in the state and provide a stable employment base and steady flow of income and expenditures to the state. The return of military aircraft from overseas operations should provide additional economic stimulus.

Chart 1: Oklahoma Job Growth Turned Positive for the First Time in 2 Years

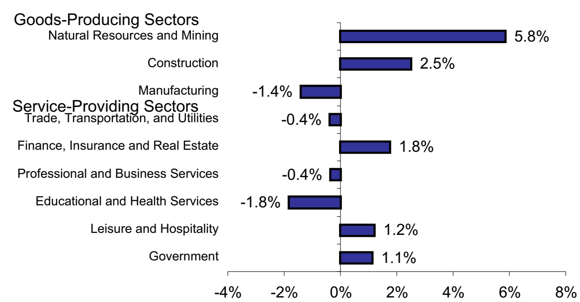


Source: Bureau of Labor Statistics (Haver Analytics)

Performance varies across different employment sectors, illustrating the gains and challenges for the Oklahoma economy (see Chart 2).

- The government sector led year-over-year job gains for Oklahoma in the third quarter, reflecting largely seasonal gains in education.
- As with the rest of the country, the financial sector was aided by refinancing activity, resulting from lower mortgage rates. Rising mortgage rates in 2004, however, may dampen growth in this sector next year.
- Following a nationwide trend, Oklahoma manufacturing lost almost 30,000 jobs since peaking in 1999. As of third quarter 2003, the state's manufacturing sector has experienced employment losses for the last 12 consecutive quarters.
- Employment losses in manufacturing slowed in each of the past five quarters and may be set to stabilize by mid-2004.
- Professional and business services were negatively affected by weakness in the manufacturing sector, as well as the relocation of headquarters operations of various energy companies out of state. Manufacturing and energy have rather large income and employment multipliers, which in turn create jobs and income in many other secondary industries such as accounting and data processing for example.

Chart 2: Oklahoma Goods-Producing Sectors Provide Lion's Share of Job Growth



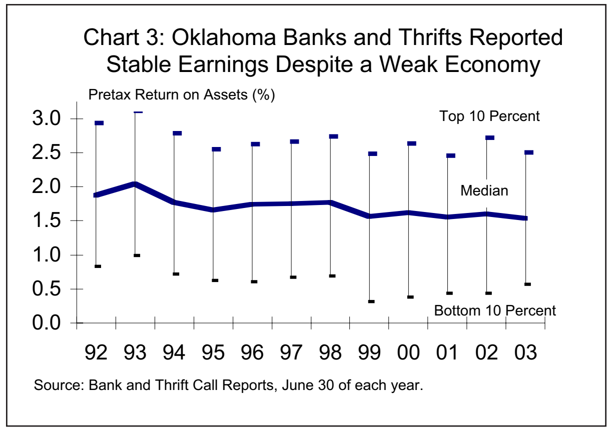
Employment Growth (Third Quarter 2003, Year-Over-Year Percent Change)
Source: Bureau of Labor Statistics (Haver Analytics)

The agriculture sector improved after several years of decline.

- Major segments of the agriculture sector showed marked improvement from one year ago. Prices for cattle returned to levels seen only twice before in the past ten years.

Despite an upward sloping yield curve, profits moved marginally lower at insured institutions in Oklahoma.

- Insured institutions headquartered in Oklahoma reported a median **pretax**[1] **return-on-assets** (ROA) ratio of 1.53 percent for the first half of 2003, the lowest semi-annual return in ten years, a result of net interest margin (NIM) compression (see Chart 3). NIMs are now at their lowest level in ten years.
- Ninety percent of Oklahoma's insured institutions hold less than $250 million in assets. Since smaller institutions are typically more NIM dependent than larger banks, NIM compression has had a more substantial effect on profitability. Fortunately, the weakness in NIMs has been offset by favorable past-due rates and charge-off ratios, which are at the low end of the ten-year range and below national averages.



Despite weakness in the residential and commercial real estate sectors, insured institutions headquartered in Oklahoma continued to report stable conditions.

- **Residential real estate** continued to show signs of stress as evidenced by the high number of home **foreclosures** in Oklahoma. According to the Mortgage Bankers Association, 1.56 percent of all Oklahoma mortgages were in foreclosure as of June 30, 2003, 44 basis points above the national average. Despite stress in residential real estate, insured institutions headquartered in Oklahoma reported an average residential mortgage charge-off rate of only .06 percent, less than the national average at 0.10 percent.
- According to PPR Fundamentals, **commercial real estate** (CRE) results in the ***Oklahoma City*** metropolitan statistical area (MSA) remained mixed. While *office* vacancy rates stabilized, they are still at their highest level in nearly a decade. *Apartment* vacancies began to recover, but weak demographic trends will constrain new demand. *Warehouse* vacancy rates increased during the past six months as supply continues to outpace demand.
- Despite weakness in the commercial real estate sector, insured institutions headquartered in Oklahoma have increased **CRE exposure**[2] to the highest level on record. Even with this heightened exposure and rising vacancy rates, CRE past-due and charge-off rates remained within national averages and their five-year ranges. The CRE portfolios of banks and thrifts have been insulated from the effects of deteriorating market fundamentals by: 1) low interest rates; 2) the tremendous growth in public, non-governmental mortgage securitization; and 3) greater regulatory oversight and stringent CRE lending standards.[3] While most banks and thrifts headquartered in Oklahoma are not lenders to the largest CRE projects, rising vacancies and increasing unemployment may have negative implications for community bank loan portfolios.

Higher cattle prices have helped ranchers, but agriculture bank profits have still declined.

- The cattle industry represented 50 percent of Oklahoma 2002 agricultural cash receipts. Cattle prices are currently at seven-year highs, providing strong support for Oklahoma ranchers. While this may bode well for credit quality and loan demand going forward, **Oklahoma agricultural banks** saw the median return on assets ratio decline 11 basis points for the first six months of 2003, compared to the same period last year, a result of net interest margin compression.

[1] Pretax ROA is used to allow better comparability between regular banking corporations and institutions electing Subchapter S status. Almost half of Oklahoma's insured institutions have elected Subchapter S status, which eliminates income tax at the bank level.

[2] Commercial real estate is defined as nonresidential real estate (including multifamily) plus construction and development.

[3] Murray, Thomas, "How Long Can Bank Portfolios Withstand Problems in Commercial Real Estate?" *FDIC FYI,* June 23, 2003.

Oklahoma at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	278	283	292	305	315
Total Assets (in thousands)	56,594,100	52,929,556	50,965,281	47,720,548	45,213,597
New Institutions (# < 3 years)	3	4	3	6	7
New Institutions (# < 9 years)	13	13	11	12	10

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.50	9.39	9.16	9.16	9.05

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	2.66%	2.47%	2.62%	2.23%	2.41%
Past-Due and Nonaccrual > = 5%	57	47	46	53	70
ALLL/Total Loans (median %)	1.28%	1.28%	1.26%	1.30%	1.33%
ALLL/Noncurrent Loans (median multiple)	1.23	1.56	1.33	1.60	1.31
Net Loan Losses/Loans (aggregate)	0.27%	0.23%	0.30%	0.32%	0.21%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	7	15	14	20	19
Percent Unprofitable	2.52%	5.30%	4.79%	6.56%	6.03%
Return on Assets (median %)	1.26	1.28	1.21	1.23	1.19
25th Percentile	0.88	0.89	0.78	0.80	0.78
Net Interest Margin (median %)	4.43%	4.62%	4.45%	4.69%	4.51%
Yield on Earning Assets (median)	6.16%	6.86%	8.29%	8.35%	7.88%
Cost of Funding Earning Assets (median)	1.66%	2.30%	3.80%	3.64%	3.40%
Provisions to Avg. Assets (median)	0.16%	0.19%	0.15%	0.16%	0.15%
Noninterest Income to Avg. Assets (median)	0.93%	0.89%	0.93%	0.85%	0.83%
Overhead to Avg. Assets (median)	3.33%	3.32%	3.30%	3.33%	3.22%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	68.80%	68.00%	68.43%	67.44%	64.81%
Loans to Assets (median %)	58.26%	57.45%	58.98%	58.67%	55.76%
Brokered Deposits (# of Institutions)	32	26	22	17	19
Bro. Deps./Assets (median for above inst.)	2.03%	3.47%	2.91%	2.80%	2.35%
Noncore Funding to Assets (median)	17.48%	16.64%	16.68%	15.73%	14.26%
Core Funding to Assets (median)	71.24%	71.47%	71.98%	73.48%	75.13%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	127	124	126	130	144
National	89	94	96	107	116
State Member	57	59	62	58	45
S&L	2	2	2	3	2
Savings Bank	3	4	6	7	8
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	182	17,274,574	65.47%	30.52%
Oklahoma City OK	43	20,341,075	15.47%	35.94%
Tulsa OK	41	17,380,385	14.75%	30.71%
Lawton OK	5	549,886	1.80%	0.97%
Enid OK	5	800,754	1.80%	1.41%
Ft Smith AR-OK	2	247,426	0.72%	0.44%